

STATEMENT

OF

THE HONORABLE JOHN GAUGHAN  
MARITIME ADMINISTRATOR

OF THE

DEPARTMENT OF TRANSPORTATION

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE  
OF THE SENATE COMMITTEE ON COMMERCE,  
SCIENCE, AND TRANSPORTATION

WITH RESPECT TO VARIOUS ODS PROPOSALS TO  
PROMOTE THE U.S.-FLAG MERCHANT MARINE

JULY 24, 1986

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MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE ON MERCHANT MARINE. MY NAME IS JOHN GAUGHAN, AND I AM THE MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION.

IT IS A PLEASURE FOR ME TO BE HERE THIS MORNING TO PRESENT THE VIEWS OF THE ADMINISTRATION WITH RESPECT TO VARIOUS ODS PROPOSALS TO PROMOTE THE U.S.-FLAG MERCHANT MARINE. MORE SPECIFICALLY, I HAVE BEEN REQUESTED TO COMMENT ON CURRENT ODS REFORM LEGISLATION, INCLUDING THE INDUSTRY DRAFTED BILL OF JULY 17, 1986 (INDUSTRY DRAFT BILL), AND OUR PROPOSED RULEMAKINGS CONCERNING THE CONSOLIDATION OF ESSENTIAL TRADE ROUTES (TRADE ROUTES) AND THE ELIMINATION OF CERTAIN RESTRICTIONS ON NON-SUBSIDIZED VOYAGES BY SUBSIDIZED OPERATORS (GENERAL ORDER 80). BEFORE I GET INTO MORE DETAIL, I'D LIKE TO BRIEFLY SHARE THE ADMINISTRATION'S VIEWS WITH REGARD TO THE ODS PROGRAM AND OUR PROMOTIONAL INITIATIVES.

AS PART OF ITS 1982 MARITIME POLICY, THE ADMINISTRATION ANNOUNCED THAT IT WOULD HONOR EXISTING ODS CONTRACTS, BUT WOULD NOT SIGN ANY NEW CONTRACTS. THIS POLICY REFLECTED THE ADMINISTRATION'S BELIEF THAT THE U.S. FLEET MUST BECOME COMPETITIVE WITHOUT SUBSIDY TO THE MAXIMUM EXTENT POSSIBLE.

TODAY THERE IS APPARENT AGREEMENT WITHIN THE U.S. MARITIME INDUSTRY AND IN THE CONGRESS, AS WITNESSED BY THIS HEARING, THAT THE PRESENT SUBSIDY SYSTEM NEEDS TO BE REFORMED AND RESTRUCTURED. WITHOUT SUCH CHANGES, I HAVE SERIOUS DOUBTS, AND I AM NOT ALONE IN THIS CONCERN, AS TO THE FUTURE OF THE U.S.-FLAG MERCHANT MARINE.

MR. CHAIRMAN, THE ADMINISTRATION IS COMMITTED TO MEANINGFUL ODS REFORM. THE ADMINISTRATION BELIEVES THE MOST EFFECTIVE WAY TO REVITALIZE THE INDUSTRY AND INCREASE THE U.S. CARRIAGE OF GOODS IN OUR FOREIGN TRADE IS (1) TO ELIMINATE UNNECESSARY IMPEDIMENTS TO COMPETITIVE MARITIME OPERATIONS, (2) TO ELIMINATE RESTRICTIVE REGULATORY CONSTRAINTS, (3) TO SUPPORT A BUSINESS ENVIRONMENT IN WHICH OPEN COMPETITION CAN EXIST, AND (4) TO PERMIT U.S. FLEET EXPANSION THROUGH WORLDWIDE SHIP ACQUISITIONS. THE ADMINISTRATION BELIEVES THAT IMPLEMENTATION OF THESE INITIATIVES WILL GO A LONG WAY TOWARD ENHANCING THE COMPETITIVENESS OF THE U.S.-FLAG FLEET AND SETTING THE STAGE FOR A REFORMED SUBSIDY SYSTEM THAT IS EQUITABLE AND MINIMAL IN COST AND PROVIDES THE OPERATORS WITH INCENTIVES TO ENHANCE THEIR COMPETITIVE POSITION VIS-A-VIS FOREIGN FLAG OPERATORS.

TO THE EXTENT THE INDUSTRY DRAFT BILL AND OTHER LEGISLATIVE PROPOSALS WOULD IMPLEMENT SUCH INITIATIVES, THEY ARE SUPPORTED BY THE ADMINISTRATION. FOR EXAMPLE, IN THE INDUSTRY DRAFT BILL, WE SUPPORT THE FOLLOWING INITIATIVES:

A. THE AUTHORITY FOR U.S.-FLAG OPERATORS TO CONSTRUCT OR ACQUIRE MODERN, EFFICIENT VESSELS AT WORLD MARKET PRICES. THIS

IS ESSENTIAL TO MODERNIZE TONNAGE IN THE PRIVATE U.S.-FLAG FLEET, AND INCREASE SEALIFT CAPACITY FOR THE DEFENSE OF THE NATION. LARGE, LOW-COST, FUEL-EFFICIENT SHIPS WILL ALLOW U.S.-FLAG OPERATORS TO COMPETE MORE EFFECTIVELY IN THE FOREIGN TRADES WITH THEIR FOREIGN COUNTERPARTS.

B. IMMEDIATE ELIGIBILITY OF FOREIGN CONSTRUCTED VESSELS TO TRANSPORT RESERVED CARGOES UNDER THE CARGO PREFERENCE ACT OF 1954.

C. THE MONTHLY PAYMENT OF ODS, RATHER THAN ONLY FOR THE VOYAGES COMPLETED DURING THE MONTH. WE SUPPORT THIS APPROACH, AS IT IS IN KEEPING WITH PRESENT BUSINESS PRACTICE IN THE INDUSTRY.

D. THE CONCEPT OF INCREASED OPERATING FLEXIBILITY TO EFFICIENTLY RESPOND TO MARKET CONDITIONS.

MR. CHAIRMAN, WE WOULD BE WILLING TO LOOK AT ANY REASONABLE INITIATIVE WHICH WOULD NOT INCREASE THE GOVERNMENT'S COSTS, WHILE, AT THE SAME TIME, MAKE U.S. CARRIERS MORE COMPETITIVE IN THE WORLD MARKET. WE ALSO ARE AWARE THAT THE CURRENT LEGISLATIVE EFFORT REFLECTS THE RECOGNITION BY BOTH SUBSIDIZED AND NONSUBSIDIZED U.S.-FLAG LINER OPERATORS OF THE CONTINUING NEED FOR ODS SUPPORT AND UNFETTERED OPERATING FLEXIBILITY. HOWEVER, WE BELIEVE THAT THE INDUSTRY DRAFT BILL AND OTHER INDUSTRY DRAFT LEGISLATIVE PROPOSALS DO NOT PROVIDE FOR THE MEANINGFUL ODS REFORM THAT MUST BE UNDERTAKEN TO REVITALIZE THE U.S.-FLAG LINER FLEET. WE ARE CONTINUING TO ASSESS WITH THE INDUSTRY WHAT SYSTEM WILL MAXIMIZE FREE MARKET OPERATIONS, PERMIT U.S.-FLAG CARRIERS FLEXIBILITY TO COMPETE WITH FOREIGN CARRIERS, ENABLE U.S.-FLAG CARRIERS TO RECAPTURE LOST MARKET SHARE, BE FAIR TO ALL U.S.-FLAG OPERATORS, AND STRIKE A FAIR RETURN FOR THE NATIONAL INTEREST.

MR. CHAIRMAN, THE PROPOSED RULEMAKINGS ON TRADE ROUTES AND GENERAL ORDER 80 ARE TWO OF THE MAJOR ADMINISTRATIVE INITIATIVES WE HAVE UNDERTAKEN TO ELIMINATE RESTRICTIVE REGULATORY CONSTRAINTS ON ODS OPERATORS. THE TRADE ROUTE PROPOSAL WOULD CONSOLIDATE THE PRESENT ESSENTIAL TRADE ROUTES INTO EIGHT ESSENTIAL TRADE AREAS IN ORDER TO REFLECT MORE REALISTICALLY THE CURRENT PATTERN OF VESSEL OPERATIONS. THIS VERY CONCEPT IS CLEARLY REFLECTED IN THE INDUSTRY DRAFT BILL AND EARLIER INDUSTRY LEGISLATIVE INITIATIVES WHICH WERE INTRODUCED IN THE HOUSE OF REPRESENTATIVES. THE PROPOSED CHANGE TO GENERAL ORDER 80 SEEKS TO ELIMINATE RESTRICTIONS ON NONSUBSIDIZED VOYAGES BY SUBSIDIZED OPERATORS IN ORDER TO PROVIDE GREATER OPERATING FLEXIBILITY FOR THESE OPERATORS. UNDER EXISTING REGULATIONS A SUBSIDIZED OPERATOR WISHING TO ENTER ANOTHER TRADE ROUTE OUTSIDE ITS ODS CONTRACT ON A NONSUBSIDIZED BASIS MUST OBTAIN OUR PRIOR APPROVAL, AND SOMETIMES THE APPROVAL OF COMPETITORS ON THAT ROUTE. THE MAJOR THRUST OF THIS INITIATIVE IS TO PROVIDE THE SUBSIDIZED OPERATOR MORE FLEXIBILITY TO OPERATE WITHOUT SUBSIDY. THE OPERATOR WOULD HAVE THE ABILITY TO INITIATE NEW SERVICE NOT COVERED IN THE ODS CONTRACT ON AN NONSUBSIDIZED BASIS.

TRADE ROUTES AND GENERAL ORDER 80 ARE SEPARATE AND DISTINCT REFORMS AND SHOULD NOT BE VIEWED AS A PACKAGE. BOTH WERE UNDERTAKEN SOME TIME AGO. THE GENESIS OF THESE ADMINISTRATIVE PROPOSALS GOES BACK TO THE EARLY 1980S WHEN THE ADMINISTRATION BEGAN CONSIDERATION OF ODS REFORM. BOTH HAVE BEEN PUBLISHED IN THE FEDERAL REGISTER, AND WE ARE CURRENTLY GIVING CAREFUL CONSIDERATION TO THE WRITTEN COMMENTS WE HAVE RECEIVED ON EACH.

FINALLY, THESE ADMINISTRATIVE EFFORTS WERE NEVER INTENDED TO BE SUBSTITUTED FOR MEANINGFUL ODS REFORM LEGISLATION.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED STATEMENT AND I WILL BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE. I KNOW THAT WE HAVE A COMMON PURPOSE IN THIS ENDEAVOR, AND I LOOK FORWARD TO WORKING WITH YOU AND REPRESENTATIVES OF ALL SEGMENTS OF THE INDUSTRY TOWARD MEANINGFUL REFORM FOR THE U.S.-FLAG MERCHANT MARINE INDUSTRY.